

***The Keller Manufacturing
Company, Inc. and
Subsidiary***

*Consolidated Unaudited Financial Statements
for the three months and the six months ending
June 30, 2004 and 2003*

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS
JUNE 30, 2004 AND 2003 AND DECEMBER 31, 2003**

	<u>2004</u>	<u>2003</u>	<u>2003</u>
	JUNE 30, (Unaudited)		DECEMBER 31, <u>2003</u>
ASSETS			
CURRENT ASSETS:			
Cash	\$ 1,974,804	\$ 1,295,506	\$ 2,648,818
Investments available for sale	250,158	3,776,309	2,760,013
Accounts receivable, less allowance for doubtful accounts of \$860,000 at June 30, 2004, \$495,000 at June 30, 2003 and \$846,000 at December 31, 2003	1,446,878	3,069,016	1,672,656
Inventories	2,309,120	8,658,827	5,073,080
Deferred tax asset	-	724,646	-
Income taxes refundable	7,421	275,460	1,421
Other current assets	115,397	199,143	95,146
Total Current Assets	6,103,778	17,998,907	12,251,134
PROPERTY, PLANT AND EQUIPMENT - net	4,325,874	8,130,104	4,740,884
OTHER ASSETS:			
Net assets available for sale	-	661,048	371,163
Deferred tax asset	-	86,696	-
Total Other Assets	-	747,744	371,163
TOTAL ASSETS	\$ 10,429,652	\$ 26,876,755	\$ 17,363,181
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 1,281,473	\$ 382,261	\$ 1,465,447
Accrued commissions, salaries & withholdings	153,566	383,108	193,702
Accrued vacation	315,000	553,556	393,746
Accrued pension liability	-	576,069	-
Allowance for sales returns	461,189	303,742	480,270
Restructuring reserve	-	-	-
Accrued health, life & workers comp. insurance	599,882	695,655	561,907
Accrued property taxes	180,000	430,899	180,000
Other current liabilities	301,733	22,929	313,715
Total Current Liabilities	3,292,843	3,348,219	3,588,787
LONG-TERM LIABILITIES:			
Accrued pension liability	1,720,415	1,339,255	1,655,415
Deferred income taxes	-	-	-
Other long-term liabilities	38,580	107,890	38,580
Total Long-Term Liabilities	1,758,995	1,447,145	1,693,995
TOTAL LIABILITIES	5,051,838	4,795,364	5,282,782
STOCKHOLDERS' EQUITY:			
Common stock - no par value, authorized 40,000,000 shares, issued and outstanding 4,869,474 (June 30, 2004), 5,177,180 (June 30, 2003) and 5,177,800 (December 31, 2003).	439,523	1,670,207	1,671,317
Deferred stock compensation	171,161	-	73,163
Accumulated other comprehensive loss	(1,655,106)	(1,874,914)	(1,650,088)
Retained earnings	6,422,236	22,286,098	11,986,007
Total Stockholders' Equity	5,377,814	22,081,391	12,080,399
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,429,652	\$ 26,876,755	\$ 17,363,181

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND THE SIX MONTHS ENDING JUNE 30, 2004 AND 2003**

	THREE MONTHS ENDING JUNE 30,		SIX MONTHS ENDING JUNE 30,	
	<u>2004</u> (Unaudited)	<u>2003</u> (Unaudited)	<u>2004</u> (Unaudited)	<u>2003</u> (Unaudited)
NET SALES	\$ 3,102,867	\$ 4,845,299	\$ 7,243,522	\$ 12,682,768
COST OF SALES	<u>5,888,525</u>	<u>5,311,466</u>	<u>10,604,638</u>	<u>12,330,208</u>
GROSS PROFIT (LOSS)	(2,785,658)	(466,167)	(3,361,116)	352,560
SELLING, GENERAL AND ADMINISTRATIVE	<u>1,228,600</u>	<u>1,206,284</u>	<u>2,766,752</u>	<u>2,538,944</u>
OPERATING LOSS	(4,014,258)	(1,672,451)	(6,127,868)	(2,186,384)
OTHER INCOME (EXPENSE):				
Interest income	21,525	13,274	39,262	22,001
Interest expense	(341)	-	(1,071)	(5,350)
Gain on sales of fixed assets	4,527	(29,149)	545,861	(29,149)
Other income (expense)	<u>(12,361)</u>	<u>(169,454)</u>	<u>(19,957)</u>	<u>(155,319)</u>
Total Other Income (Expense), net	13,350	(185,329)	564,095	(167,817)
LOSS BEFORE INCOME TAXES	(4,000,908)	(1,857,780)	(5,563,773)	(2,354,201)
INCOME TAX PROVISION (BENEFIT)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(155,880)</u>
NET LOSS	\$ (4,000,908)	\$ (1,857,780)	\$ (5,563,773)	\$ (2,198,321)

**NET LOSS PER SHARE OF COMMON STOCK,
BASIC AND DILUTIVE -**

Based on weighted average number of shares outstanding of 5,033,802 and 5,272,952 for the six months ending June 30, 2004 and 2003, respectively; and 4,889,803 and 5,246,217 for the three months ending June 30, 2004 and 2003 respectively.

\$ (0.82)	\$ (0.35)	\$ (1.11)	\$ (0.42)
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THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS AND THE SIX MONTHS ENDING JUNE 30, 2004 AND 2003**

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(Unaudited)		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Loss	\$ (4,000,908)	\$ (1,857,780)	\$ (5,563,773)	\$ (2,198,321)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation	220,000	279,800	460,000	574,568
(Gain) Loss on fixed asset disposals	(4,527)	29,149	(545,861)	29,149
Bad debt expense	-	30,000	-	60,000
Deferred income taxes	-	180	-	(155,880)
Inventory reserve	1,168,936	-	1,168,936	-
Compensation for stock options granted	48,999	-	97,998	-
Changes in Assets and Liabilities				
Accounts receivable	364,501	954,904	225,778	678,801
Inventory	1,224,581	(19,035)	1,595,024	1,130,121
Income taxes refundable / payable	(5,000)	2,026,179	(6,000)	2,026,179
Other current assets	(38,488)	(13,155)	(20,251)	(16,366)
Prepaid pension costs / accrued pension liability	35,000	67,592	65,000	125,422
Accounts payable	(28,552)	(97,794)	(183,974)	(277,904)
Accrued commissions, salaries & withholdings & accrued vacation	(75,162)	(28,840)	(40,136)	(48,120)
Allowance for sales returns	-	-	(19,081)	(44,239)
Restructuring reserve	-	(57,330)	-	(242,299)
Accrued health, life & workers compensation insurance	(13,232)	(29,709)	37,975	(116,212)
Accrued property taxes	-	84,951	-	151,630
Other liabilities	(57,920)	(63,012)	(63,228)	(310,272)
Total Adjustments	2,839,136	3,163,880	2,772,180	3,564,578
Net Cash Provided By (Used In) Operating Activities	(1,161,772)	1,306,100	(2,791,593)	1,366,257
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant & equipment	(162,075)	(175,304)	(731,435)	(243,364)
Proceeds from sales of property, plant & equipment	573,754	-	1,575,971	-
Purchases of investments available for sale	(248,752)	(2,029,058)	(1,745,163)	(2,522,872)
Proceeds from disposal of investments available for sale	2,250,000	-	4,250,000	-
Net Cash Provided By (Used In) Investing Activities	2,412,927	(2,204,362)	3,349,373	(2,766,236)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Redemptions of common stock	(1,231,794)	(215,608)	(1,231,794)	(291,752)
Issuance of common stock	-	-	-	-
Dividends paid	-	(92,214)	-	(184,997)
Net Cash Used In Financing Activities	(1,231,794)	(307,822)	(1,231,794)	(476,749)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,361	(1,206,084)	(674,014)	(1,876,728)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,955,443	2,501,590	2,648,818	3,172,234
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,974,804	\$ 1,295,506	\$ 1,974,804	\$ 1,295,506